

## **Ties That Bind: Case Study**

### **Rwanda Coffee – Starbucks**

Prior to 2001, Rwanda was an unknown in the specialty/high value coffee sector. Today, Rwanda is a sought after market supplying specialty coffee to Starbucks and other premium coffee buyers throughout Europe and the United States. The transformation is due to the combined efforts of the local producers, the Government of Rwanda, USAID donor projects and the international buyers. This case focuses on the role of the USAID donor projects in upgrading the quality of supply and then facilitating the initial linkage with international buyers. The case illustrates best practice training and facilitation in preparing a product to meet international quality standards and attracting the interest of international buyers. Finally, the case highlights the continuing need to build the capacity of local suppliers in marketing and commercial relationship management.

#### **Origins and Nature of the Buyer-Supplier Relationship**

USAID began supporting the coffee sector in Rwanda in 2000. At the time, there were only 2 coffee washing stations in the country, neither were operating, and Rwandan coffee was considered below commodity grade, despite most of the beans coming from high-value Arabica trees. The coffee that was being exported was only used in low-end, mass produced blends. During the 1990s, the coffee sector was entirely coordinated and run by the Government of Rwanda through OCIR CAFÉ (Office Nationale de Cultures Industrielles-Café). OCIR Café was responsible for every segment of the value chain from the free distribution of seedlings, fertilizer, phytosanitary products and other inputs to growers to the dry milling and exporting coffee. The government set the prices for coffee export up until 1998. Coffee producer associations existed in Rwanda, but were agents of the state that distributed inputs and did little else. By the end of the 1990s, coffee's contribution to exports declined from a peak of 39000 metric tons to less than half that value.

Despite the constraints that led to low quality, low quantity commodity-grade coffee, the GoR and Donor Partners believed that Rwanda possessed the capacity, environmental conditions, (elevation, climate, soil quality, Bourbon trees, etc), and political will to improve its coffee position in world markets. What Rwanda lacked was technical capacity, market information, and a coherent strategy.

Through the coordination of three different agricultural development partners, ADAR, PEARL and ACDI-VOCA, USAID, in partnership with local producer cooperatives and the Government of Rwanda, began systematically upgrading the supply of Rwandan coffee.

In response to the steady decline in production, quality and export revenue, the GoR, with the assistance of Donor Partners set into motion strategy sessions to improve Rwandan coffee positioning in worldwide markets. These sessions resulted in coffee sector liberalization strategies that when implemented, set the course to improve Rwandan coffee. Armed with market information, the private sector learned that higher value coffee was very attractive to global markets, that cupping/taste results indicated Rwanda had the significant potential to produce specialty coffee, and that Rwanda could be competitive with higher-end producers like Guatemala, Ethiopia and Kenya.

An integrated set of specific support activities were carried out via a variety of implementing partners, and sponsored by various Donor Partners.

Through these interventions (outlined in detail below), Rwanda was effectively able to reposition its coffee and compete in higher grade/higher priced sectors. July 2002, saw the first sales of commercial volumes of specialty coffee, with a sale of 33mt to Community Coffee in the U.S. By March of the following year, privately invested in and operated wet mill facilities produced fully washed coffee.

Production and quality continued to increase and after visits to and from trade-show buyers, Rwandan specialty coffee made its first sale to Starbucks Coffee Corporation in June 2004 through specialty coffee buyers covering East Africa. Starbucks does not directly engage in commercial relationships with local coffee washing stations. All coffee sold to Starbucks is done through specialty coffee buyers that serve as intermediaries. In April 2005 three coffee producers were sponsored to attend the Specialty Coffee Association of America conference and exhibition in Seattle. In November 2005, Starbucks selected two privately owned wet milling facilities to a distribution program, which provides coffee to 5000 Starbucks retail outlets. As part of the developing relationship between Starbucks and Rwandan coffee washing stations, Starbucks awarded \$7,500 to two washing stations to finance social projects for the farmer communities. In February 2006, Alfredo Nuno from Starbucks Trading Department visited Rwanda and the two washing stations to congratulate the farmers and the washing stations for their increased quality.

In the spring of 2006, Starbucks successfully marketed Rwandan coffee under their ultra-premium “Black Apron” category. The coffee was sold throughout the United States for \$13 per half-pound. The coffee sold out faster than any previous Black Apron offering.

Finally, in June of 2006, the Karengera washing station became the first washing station in Rwanda to be certified under Starbucks C.A.F.E. (Coffee and Farmer Equity) Practice program. The program uses a comprehensive and transparent scorecard approach to evaluate, recognize and reward of high quality, sustainably grown coffee. The scorecard is structured around four pillars: product quality, economic accountability, social responsibility, and environmental leadership. Through the scorecard, Starbucks is attempting to transparently measure and monitor their relationships with their suppliers. All certified washing stations require verification by an independent 3<sup>rd</sup> party, involving field inspections, face-to-face interviews with workers, document review and desk audits. Reverification is completed to ensure progress and sustainability and continuity. To date, 9 coffee washing stations have successfully been certified under the CAFÉ Practice Program.

### **Role of Outside Support / Facilitation**

In order for Rwanda to move from being considered a commodity-grade to a specialty-grade coffee producer, the sector needed to address three key areas;

- *Increasing Production*, since production levels were insufficient to attract global demand; Activities included; distributing improved inputs, supporting growing associations, replanting coffee trees, and constructing wet mill stations in Rwanda’s top 50 coffee producing districts.
- *Improving Quality*; Activities included; educating producers on quality & cupping, establishing quality control mechanisms, investment and technical assistance in wet mill techniques and operational and financial management, improving infrastructure,

strengthening cooperative and association management, strengthening existing institutions (like OCIR-Café), and providing financial mechanisms throughout the coffee value chain.

- *Promoting the Rwandan Brand*; Activities included; establishing and improving market linkages through trade show visits, sharing information on the local and global coffee markets with the private sector, and instituting other innovative promotional activities.

Specific interventions included:

- Market research and investigation of market potential.
- Use of regional expertise for technical training in coffee processing.
- Creation of traceability systems from farm to market.
- Establishment of environmental risk mitigation measures.
- Establishment of cupping capacity and cupping labs.
- Establishment of model dry milling facilities.
- Support to the financing environment for entrepreneurship in the sector.
- Finance of in-bound trade missions.
- Engagement of US-based marketing consultants.
- Verification of product quality prior to distribution of samples to buyers.
- Strategic planning the product marketing activities.
- Negotiation and customer relationship management.

### **Costs and Benefits of the Buyer-Supplier Relationship**

Starbucks does not invest directly in the upgrading of coffee supply chains. All of the cost for increasing scale and production must be covered by the producers themselves and any government or donor projects. However, recognizing that the CAFÉ practice verification system is rigorous and exhaustive, Starbucks does share the cost of the verification process with the washing station or the intermediary buyer.

Starbucks will provide producer-driven incentives to reward groups of farmers for increased quality. The \$15,000 presented to the two washing stations in Rwanda for direct support to the farmers is an example of this.

### **Strategies for Overcoming Risks**

The risks to reorient the washing stations to deliver consistent, high quality coffee to Starbucks required a comprehensive set of strategies.

Starbucks is able to manage its commercial risks and operational costs by purchasing through an intermediate specialty coffee buyer. The intermediate buyer employs a full time representative on the ground to take care of all contractual and logistic interactions with the individual coffee washing stations.

Yet to ensure that the product quality and operating standards are aligned with Starbucks standards, the CAFÉ practice program is implemented to systematically assess the local supply chain and the operations of the coffee washing station. Contracting a third party verification organization allows Starbucks to attain a regular independent assessment that is based on a transparent criteria for success.

Once a washing station is able to sell to Starbucks, the growth in sales is carefully staged to ensure that the producers can continually meet the demand without compromising the quality. For example, the first year that Starbucks purchased coffee from Rwanda, only one container

was purchased. The second year, two containers were purchased. If the producers are able to continually meet the quality standards, then the scale continues to increase overtime without putting too much pressure on the production system.

Strategies from the donors outlined in detail above included a full range of value chain support activities delivered through both technical and financial assistance. The effort was a comprehensive step-by-step building of capacity of individual washing stations and producer groups.

### **Lessons Learned**

The Rwandan case is emerging as a best practice case and many lessons can be drawn from the coordinated efforts of suppliers, donors and international buyers. The two specific lessons that have relevance for this study are:

- A transparent criteria for supplier success can be beneficial to both the buyer and the supplier in transparently aligning the needs and expectations of the buyer with the production practices of the suppliers
- In the structure of a fragmented supplier base, third party verification is needed to ensure consistent monitoring and quality control occurs by a party not directly active in the value chain